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Total Deleted Page(s) = 18
Page 2 ~ b5;
Page 3 ~ b5; b6; b7C;
Page 4 ~ b5;
Page 5 ~ b5;
Page 6 ~ b5;
Page 7 ~ b5;
Page 8 ~ b5; b6; b7C;
Page 9 ~ b5; b6; b7C;
Page 10 ~ b5; b6; b7C;
Page 11 ~ b5; b6; b7C;
Page 12 ~ b5; b6; b7C;
Page 13 ~ b5; b6; b7C;
Page 14 ~ b3; b6; b7C; b7D; b7E;
Page 15 ~ b6; b7C; b7D; b7E;
Page 16 ~ b6; b7C; b7D; b7E;
Page 17 ~ b6; b7C; b7D; b7E;
Page 18 ~ b7D;
Page 19 ~ b7D;

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FD-1057 (Rev. 5-8-10)

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FEDERAL BUREAU OF INVESTIGATION

Electronic Communication

Title: (U//~~FOUO~~) Dryships Meeting **Date:** 12/14/2018

From: NEWARK
NK-C5
Contact:

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b7E

Approved By: SSA

Drafted By:

Case ID #: (U)

Synopsis: (U//~~FOUO~~) Dryships Meeting at the AUSA office

Enclosure(s): Enclosed are the following items:
1. (U//~~FOUO~~) Dryships Presentation

Details:

On 12/12/2018, FEDERAL BUREAU OF INVESTIGATION (FBI) Special Agent (SA) and Intelligence Analyst (IA) participated in a meeting regarding the captioned case at the U.S. Attorney's Office (USAO) in Newark, NJ. In attendance from the USAO were AUSA AUSA and AUSA . On the conference line from District of Columbia's office was AUSA . Participants of the meeting discussed events surrounding Dryships.

b6
b7C

Documents presented during the meeting are attached in the 1A.

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THE WALL STREET JOURNAL.

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https://www.wsj.com/articles/a-shipping-companys-bizarre-stock-maneuvers-create-high-seas-intrigue-1499960367

A Shipping Company's Bizarre Stock Maneuvers Create High Seas Intrigue

Greek carrier DryShips sold vast sums of discounted shares to an offshore firm and propped up prices with 'reverse splits,' sending investors on a wild ride that, for many, ended with steep losses

By Spencer Jakab
Updated July 13, 2017 12:21 p.m. ET

When a company's stock drops 99.9% in six months, there's probably a story there. When, despite that carnage, the company's assets double during the same period, even more so.

And when 1.68 million of the company's shares held early last year equal exactly one share today, well, what is going on?

The locus of these bizarre doings is DryShips Inc., DRYS -2.75% ▼ a Greek carrier that has been tracing one of the wildest rides in recent stock-market history, causing half a billion dollars of traders' money to vanish and, it appears, making two wealthy men wealthier.

DryShips' shares occupy a murky world of tiny stocks where information is limited and investors often bet on short-term moves. Worth barely $5 million on the stock market in early November, the company became a hot topic on stock discussion boards when its shares suddenly leapt 1,500% in four trading days.

That the company had just disclosed a huge loss and suspended debt payments "to preserve cash liquidity" evidently didn't matter to buyers who wanted in while the stock was on fire.

But even as they were buying, the company was creating vast numbers of new shares. These it was selling at a discount to an obscure British Virgin Islands firm, which was quickly unloading many or all of the new shares.

Immediately after the stock's soaring November flight, it plunged back to earth.

Since then, DryShips has repeatedly printed huge numbers of new shares and sold them to the British Virgin Islands firm, on such a scale that virtually every share in existence today has been created since November.

In an apparent effort to counter the downward pressure that this new supply of shares put on the price, DryShips used another technique: reverse stock splits.

In a typical stock split, a company whose share price has grown high makes the stock more affordable by giving investors two or more shares for each one they hold. The price of each share becomes lower, but an investor's proportional ownership of the company doesn't change.

Write to Spencer Jakab at spencer.jakab@wsj.com

Corrections & Amplifications
A total of 1.68 million shares of DryShips Inc. held early last year equal one today. An earlier version misstated the figure. (July 13, 2017)

Appeared in the July 14, 2017, print edition as 'Shipping Firm Takes Investors on Wild Ride.'

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Among the three executives approached was Anthony Kandylidis, DryShips' chief financial officer. He is a nephew of Mr. Economou, the founder of DryShips, which has offices in Athens but is domiciled in the Marshall Islands. The CFO said he met with Mr. Bistricer in New York a little over a year ago about helping DryShips raise capital.

On June 8, 2016, DryShips sold Kalani securities convertible into $5 million worth of new DryShips common shares, which was equivalent to a little under 10% of the shipping company's market value then. It was a small foretaste of what was to come.

Kalani didn't report a 5% or more stock ownership, as U.S. regulations require, indicating it rapidly sold many of these new DryShips shares. And in succeeding weeks, DryShips' stock tumbled.

By September, DryShips was preparing paperwork to do two things: execute a reverse stock split and issue a far larger batch of securities to Kalani.

Issuing so many new shares would normally be unrealistic for a company with a tumbling stock, but on Nov. 9 DryShips' stock suddenly tripled, ending the day up 133%. Nasdaq temporarily halted trading four sessions later with the stock up 1,500%.

What caused the giant rally is unknown; there is no evidence Kalani, DryShips or their principals took any steps to trigger it.

When trading resumed two days later, DryShips announced it was selling a second batch of securities to Kalani—securities the offshore firm could convert into $100 million of new DryShips common stock.

That was nearly 20 times what the entire company was worth before its stock's mysterious rally.

DryShips gave no information about Kalani in securities filings or public statements when it sold the firm shares, except to say that Mr. Economou wasn't affiliated with the firm. Details of Kalani's ownership are protected by secrecy laws in the British Virgin Islands.

Despite this extreme common-stock dilution, Mr. Economou was in no danger of losing his control of DryShips. Just two month earlier, he had converted some loans to the company into a new class of preferred shares that carried 100,000 votes apiece. Through other companies he controls, he stood to benefit from the share deluge.

DryShips shares by this time were plunging, thanks to the news that many more of them were being created.

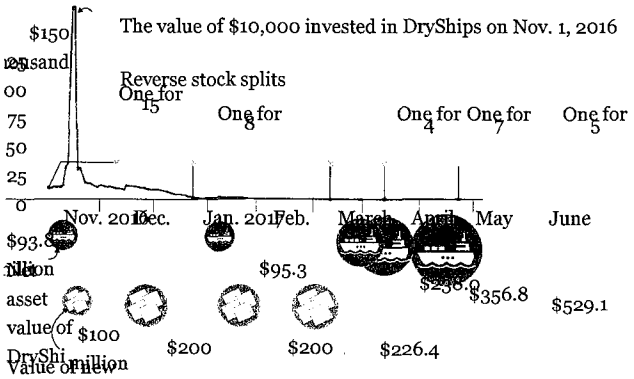
Even so, investor chat rooms lit up with speculation that another epic rally could be in store, given the sudden inflow of cash to the company's coffers. Mentions of DryShips on an investing site called StockTwits, which had totaled only about 77 a week before the November rally, soared to an average of about 18,000 a week over the following four months.

The enthusiasm allowed DryShips to create and sell still more shares. In three additional deals with Kalani, the shipper agreed to sell it securities convertible into $626.4 million of new DryShips common shares.

That was equal to about 100 times DryShips' stock-market value in early November.

To keep its stock price from falling below $1, necessary to avoid delisting, DryShips kept doing reverse stock splits—not only one on Nov. 1 but also one on Jan. 23, one on April 11, one on May 11 and one last month, on June 22. All had the approval of Nasdaq, where the stock trades.

Sinking Feeling
Shipping company DryShips has taken investors on a wild ride since November, repeatedly issuing new shares to an offshore firm, called Kalani, and also repeatedly reducing shares outstanding through reverse stock splits.



*securities convertible to shares, in the first instance.

Sources: FactSet; securities filings

Ingmar Bueb, a 48-year-old opera singer, invested $220,000 in DryShips over the years, the bulk of his nest egg. The High Bridge, N.J., resident had hoped to use the profits from this long-term holding to build a small opera house, he said.

Already nursing losses by early November of last year, Mr. Bueb noticed the sudden price surge. "I went to the cafe to sell it, but then it was halted and crashed," he said.

He didn't look again until he was doing his taxes this year and was shocked to discover that, because of the many reverse stock splits, he then owned only two shares. The investment now is worth less than $1.

"I would rather have given that money to poor, hungry people," Mr. Bueb said.

What about Kalani, the offshore firm that paid hundreds of millions of dollars to DryShips for shares—did the stock drop punish Kalani, too?

Evidently not; Kalani appears to have earned tens of millions by immediately selling the stock, which it purchased at a discount to the stock-market price.

The quick sales were by design, because Kalani's agreement with DryShips didn't permit Kalani's stake in the shipper to go above 4.9%, according to a securities filing. Kalani had to sell quickly to stay below that level.

Kalani didn't respond to requests for comment. In addition, emails and calls to a Toronto investment partnership Mr. Bistricer runs, Murchinson Ltd., weren't returned.

Legal experts said the quick sales raise questions for regulators. "If [Kalani is] buying it with the intent to resell, then they're acting as an underwriter and this is a public offering," said Jill Fisch, a University of Pennsylvania law professor who specializes in securities regulation. In an underwriting, a licensed entity, normally a bank, sells shares to the public and gives the proceeds to the company.

James Angel, a financial-markets expert at Georgetown University, said the deal sounds like a "pseudo-underwriting."

Kalani isn't registered with the the Securities and Exchange Commission as an underwriter. That means it is possible "both the company and the intermediary are on the hook for violating securities laws," Ms. Fisch said.

Mr. Kandylidis, the DryShips CFO, said "our understanding is different" but he preferred not to comment on legal matters. There is no indication the SEC is investigating DryShips or Kalani, and the agency declined to comment.

The tens of millions of new DryShips shares created have hammered long-term investors through stock dilution on a grand scale, since far more shares now have a claim on the company.

Investors who bought DryShips shares last fall and held on have lost almost all of their money. A $10,000 investment in DryShips stock at the beginning of November was worth $167,000 two weeks later, during the brief price spike, but only about $2 today.

Ingmar Bueb and Jane Karp with their children. Mr. Bueb said his investment in DryShips has lost most of its value. PHOTO: BRYAN ANSELM FOR THE WALL STREET JOURNAL

For DryShips, however, the cash that poured in from Kalani for new shares put the shipper on a strong financial footing. Its net assets have soared. It has used the money from Kalani to roughly double the size of its fleet to about 36.

Mr. Economou, who was buying ships from DryShips last year when it was hurting for cash, lately has been selling it ships from his private fleet.

Paid to maintain DryShips' growing fleet are offshore companies DryShips refers to collectively as the TMS Entities. Mr. Economou controls them, securities filings show.

In addition, a firm Mr. Economou controls purchased most of DryShips' bank debt late last year, and this spring Mr. Economou said DryShips was raising the interest rate it pays on this debt.

Though DryShips' value has surged, at least on paper, its shares would seem unlikely to rally unless the company stops issuing a host of new ones.

A civil suit filed on July 3 seeks to halt further issuance. Filed in the Marshall Islands by a U.S. shareholder, the suit accuses Mr. Economou of unjustly enriching himself by having DryShips issue millions of new shares at a "devastating loss" to existing shareholders.

"The mechanism," the suit says, was that DryShips sold discounted shares "to co-conspirator Kalani Investments, a shell corporation run by Mark Bistricer...which would then dump them on the market regardless of price."

DryShips said the suit was "without merit." The plaintiff, Michael Sammons, couldn't be reached for comment. The court has set a Monday hearing on a request for a preliminary injunction.

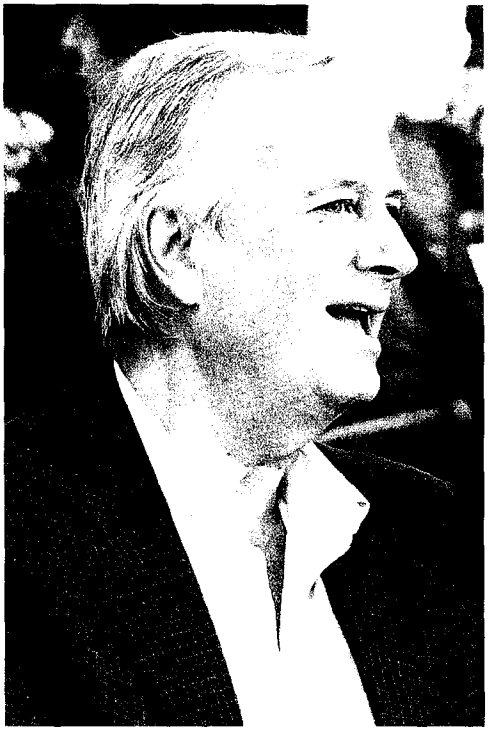
Mr. Kandylidis, the DryShips CFO, said Mr. Economou doesn't need the cash he is reaping from DryShips. He hinted that his uncle could stop the share issuance soon.

"I know that, obviously, George has a lot of control," Mr. Kandylidis said, "but I think that the interests of George and the stockholders will converge."

—Jacquie McNish contributed to this article.

In a reverse split, a company with a very low share price forces it higher by making each share represent a larger piece of the company.

On Nov. 1, for example, DryShips did a 1-for-15 reverse split. A holder of 15 shares now had just one, but that one share would have a higher price—roughly 15 times the price of one before the split.



George Economou, founder and CEO of DryShips PHOTO: BENJAMIN LOZOVSKY/BFA.COM

Behind these maneuvers were two men with seemingly little in common. One is George Economou, DryShips' founder, chairman and chief executive, a resident of Athens who also owns a private fleet of some 100 ships and has gained notice in the art world for his collection of German expressionist paintings.

The other is Marc Bistricer, a member of Toronto's tightknit Orthodox Jewish community and a man with almost no public profile. One of the rare media mentions of him was a 2015 report by broadcaster CBC on a rundown Ontario apartment building owned by a company that lists him as an officer and director. Neither man responded to requests for an interview.

The DryShips saga began early last year when a British Virgin Islands firm called Kalani Investments Ltd. began approaching companies in the ocean-shipping business with a radical idea to help them raise money.

Many companies could use help in that hard-hit industry, including those such as DryShips that operate "dry bulk" ships carrying goods such as coal and ore. A glut of such vessels drove shipping rates to a multi-decade low in February 2016.

Kalani's idea was that it would buy newly issued shares directly from the shipping companies at a discount to the stock-market price, thus injecting cash into the companies. Executives of three Greek shipping companies described such an approach by Kalani. All three said Kalani was controlled by Toronto's Mr. Bistricer.